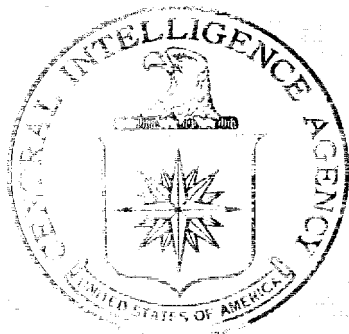


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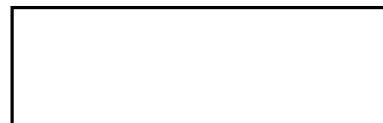
INTELLIGENCE REPORT

THE SITUATION IN SOUTH VIETNAM

DIRECTORATE OF INTELLIGENCE

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State Dept. review completed



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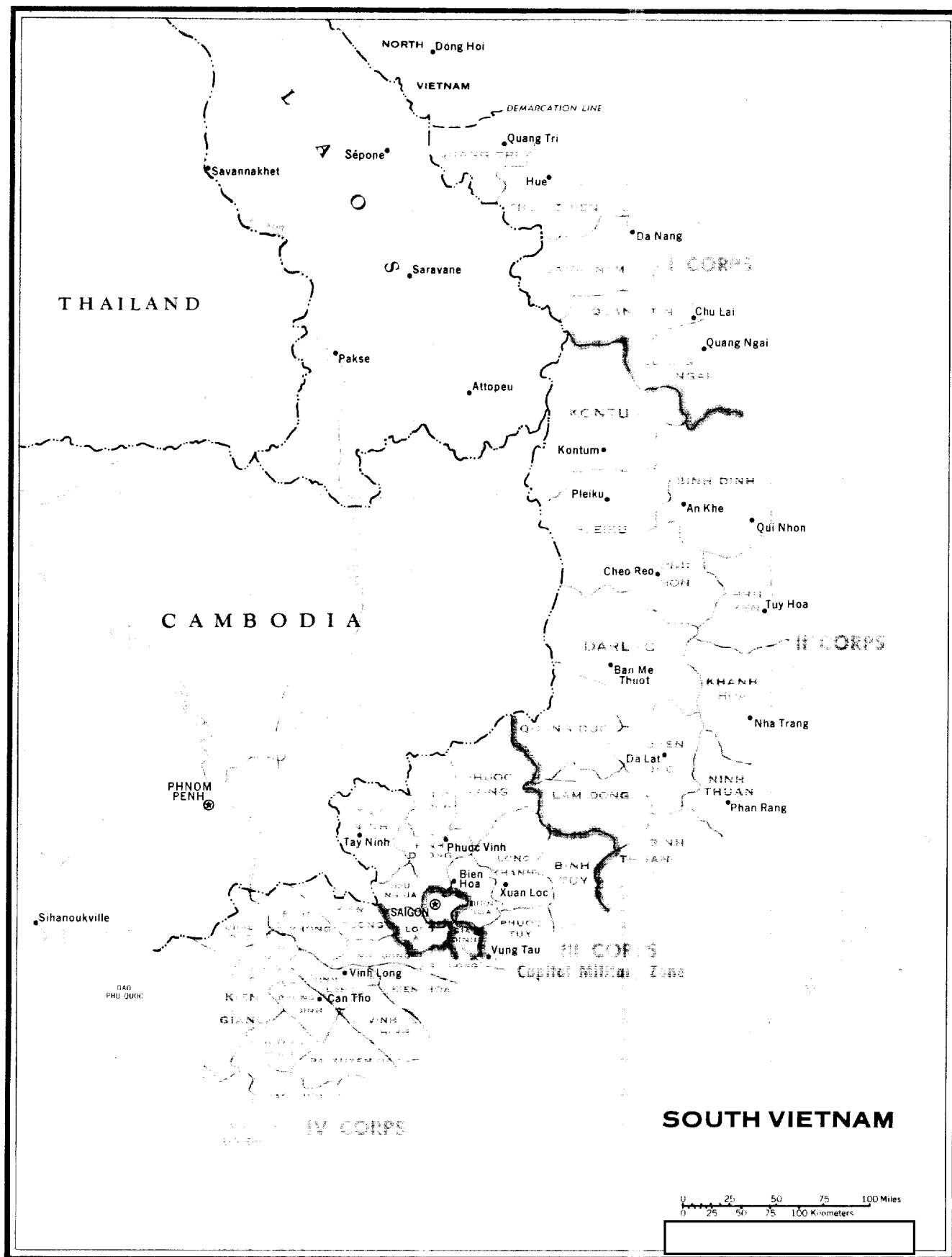
CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(3 October - 9 October 1966)

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I. POLITICAL SITUATION

A cabinet crisis touched off by north-south regional antagonisms last week may seriously disrupt cooperation between southern civilians and the northern-dominated military leadership.

The constituent assembly has been reviewing the work of its subcommittees, with the election of assembly officers not now expected until the week of 17 October. Government leaders, busily preparing for the Manila Conference, have shown concern about discussion of a joint policy for a negotiated settlement in Vietnam. Local officials in the Hue area are planning to round up a number of lower ranking "struggle" members after learning that Tri Quang has ordered a resumption of the movement on 1 November, the anniversary of the overthrow of Diem. Buddhist moderate Tam Chau has begun dealings with the government without the consent of the militant Buddhists, with the split between the two Buddhist wings apparently remaining insoluble.

Government on the Verge of Cabinet Crisis

1. The pending resignation of six southern-oriented cabinet ministers threatens to exacerbate traditional problems of regionalism within the Ky government, the civilian-military advisory council, and the constituent assembly. The six ministers tendered their resignations to Premier Ky on 7 October after a newspaper, allegedly controlled by Minister of Information General Nguyen Bao Tri, carried an article which misconstrued the role of one of their southern subcabinet colleagues in the Health Secretariat. Their southern colleague, who subsequently resigned, had been previously detained for questioning by police director Loan, a northerner, acting in collaboration with Secretary of State for Health, Nguyen Ba Kha, another northerner. Kha had taken offense at dealings within his Health Secretariat during his absence from the country in late September.

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2. Sympathetic southerners in the cabinet later took the opportunity during a cabinet meeting to chastise Kha for calling upon Loan to intimidate the southerner. Kha then resigned and the article defending his position appeared shortly thereafter. The southerners in the cabinet charged that the actions of Kha, Loan, and whoever wrote the newspaper article (Minister of Information Tri by implication), smacked of police state methods which they could not tolerate.

3. Several influential civilians, most of them in the government, are trying to reconcile the differences of opinion. One of the civilians, Directorate member Tran Van An, has recommended an early Directorate meeting for the purpose of having Loan apologize. Tran Van Do, the Foreign Affairs Minister, on the other hand, suggested to a US Embassy officer that it might be more useful to accept the resignations of the six sympathetic southerners than to let the situation smolder and spread to other governmental bodies.

Assembly Sessions

4. In plenary sessions on the morning and afternoon of 5 October, the constituent assembly reviewed the work of its three subcommittees to date. The credentials committee reported that it had found the cases of 94 of the 117 deputies in order, with 23 cases left to consider. Earlier reporting had indicated that there were 23 contested seats, and it may be that the committee has left the controversial and more time consuming cases until last. After the committee for flood relief reported that it had raised over \$2,000 thus far, the assembly voted to regularize the status of the committee, and endorsed its activities. The assembly also decided during the morning session to redraft its messages to the United Nations, allied nations, and to the soldiers and people of South Vietnam.

5. The rules committee was the major subject of discussion during the assembly's afternoon session on 5 October. The committee was instructed to complete its entire draft of procedural rules before submitting

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them for assembly discussion. The deputies also requested the acting assembly chairman to ask the government to obtain better facilities for the assembly.

Election of Assembly Officers Not Expected
Before Next Week

6. With the constituent assembly off to a slower start than anticipated, the election of assembly officers is not now expected before the week of 17 October at the earliest. No significant alliances are yet firm within the assembly, but there is evidence that some of the well-known deputies who are major contenders for the top assembly posts are assessing their respective strengths, and considering compromises which could result in a combined slate of two or more of the top contenders. In particular, Dr. Phan Quang Dan recently indicated that he was considering giving up his aspirations for the chairmanship and running for assistant chairman or secretary general on a slate headed by either La Thanh Nghe or Phan Khac Suu. Nghe, however, appears to have compromised his chances as one of the leading contenders. He reportedly forced the deputy who won a seat on his slate to resign and paid him 500,000 Vietnamese piasters. The story is known to the rest of the assembly deputies now and Nghe is not in favor with them for creating a scandal.

7. Several younger and lesser-known candidates for chairman reportedly have some degree of government backing, Le Phuoc Sang, a Saigon judge and leading Hoa Hao layman who has been serving as a special assistant in Premier Ky's office, reportedly received encouragement from Premier Ky to run for chairman, and has decided to do so. Deputies Nguyen Huu Thong, temporary assistant to the acting chairman, and Truong Tien Dat are two northerners who reportedly received strong military backing during the election, and are also being discussed as possible candidates. The reason for the government apparently backing or encouraging several different deputies as candidates for chairman is not yet entirely clear. Government influence may crystallize behind one man as the election approaches.

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Catholic Strength Reflected in Recent
Subcommittee Selection

8. The strength and cohesiveness of Catholic deputies in the assembly--some 33 out of 117--has been reflected in recent voting for membership on the subcommittee for rules, and in voting for the leadership of both the rules and credentials subcommittees. Six of the 15 members of the rules committee are Catholic as are three of the six committee officers.

9. The credentials committee was chosen by lot, but on committee voting for its eight officers, four and possibly six Catholics were elected. Southern Catholic deputy Nguyen Van Hoi, who was later elected committee chairman, received 70 votes out of 110 voting for the rules committee membership. Hoi has been linked with IV Corps commander Quang, and has been described as a spokesman for the southern deputies in addition to his obvious Catholic connections. Hoi has expressed moderate views concerning assembly relations with the government, and has been described as another potential candidate for assembly chairman.

The Manila Conference

10. Government military leaders and foreign ministry officials are busy preparing for the seven-nation conference scheduled to begin in Manila on 24 October. Of particular concern to government officials is the proposed discussion of a joint policy on a negotiated settlement of the Vietnamese conflict. In recent public statements, Premier Ky and Foreign Minister Tran Van Do both stressed that the inclusion of the Viet Cong as a separate party at negotiations is unacceptable, although Do indicated that they might be included as part of a North Vietnamese delegation. Premier Ky told newsmen on 1 October that the 1954 Geneva Accords were no longer useful as a basis for any settlement. In a press interview on 7 October, Tran Van Do also rejected as a part of any settlement a commitment to hold free elections in both North and South Vietnam within a specified time limit of two years or so.

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Current Status of "Struggle" Movement in I Corps



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12. A recent assessment prepared by US Consulate officials on the scene concluded that the "struggle" movement did have the capability to resume its antigovernment activities should Tri Quang and other prominent leaders return. Local Vietnamese officials feel that the "struggle" movement will not be able to function if it is forcefully opposed. There are some indications, however, that local officials may desire that the Saigon government once again take the responsibility for any such forceful action.

Buddhist Institute Developments

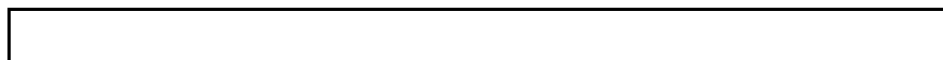
13. After making no progress since mid-September toward resolving his difficulties with militant Buddhists, moderate Institute chairman Tam Chau began negotiating with the government without the militants' consent. On 2 October, government officials publicly turned over to Tam Chau the Vien Hoa Dao pagoda, the Institute's formal headquarters which had been under government control since a police raid in July. Eleven Buddhist "struggle" prisoners were also released in Chau's custody at the ceremony. Militant Buddhists, who did not attend, reacted by declaring publicly that the scheduled national congress--which was intended to patch up differences between Institute leaders--was now useless.

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II. REVOLUTIONARY DEVELOPMENT

Recently acquired Viet Cong documents,

indicate that the Vietnamese Communists in South Vietnam are beginning to feel the pressures from a re-emphasized pacification program. During the week ending 5 October, the total number of Viet Cong defectors registered the first rise in several weeks to 315 returnees.

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Viet Cong Reaction to Pacification

1. Enemy interest in the GVN pacification program appears to have sharpened considerably in recent months. For example, on 15 September, Hanoi broadcast an English-language evaluation of the "new" pacification program and why it is doomed to failure. Although the Communists' attack on what they termed the "second front" was exaggerated and weak, it revealed that they have considerable insight into the various aspects and objectives of pacification. The broadcast stated that the GVN operates in three stages: military sweeps of a Viet Cong - controlled area; deployment of military forces to perform basic security tasks; and deployment of pacification cadres to carry out technical tasks, post "spies," set up "puppet" organizations, and engage in psychological warfare. This interpretation of the general pacification methodology is essentially correct. The broadcast outlined the situation around Da Nang, in the national priority area of I Corps. The commentary also mentioned the Chieu Hoi (defector) program, the refugee centers, and the "new life" hamlets as programs designed to give the people an appearance of prosperity.

2. On 26 September, the clandestine Liberation Radio broadcast a story about some of the pacification cadre in Quang Tri Province. The broadcast stated that the "Biet Chinh" force (actually Advanced Political Action teams) was "organized, trained, equipped, and

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directly commanded by the Americans." The broadcast outlined the US-supervised training facilities in Quang Tri and the national training center in Vung Tau.

3. About half of the commentary was devoted to an example of two Biet Chinh who were captured and who supposedly realized their mistakes. It is clear from the tone of the broadcast that the Viet Cong view GVN personnel trained to proselyte in insecure areas as a major threat to their own political influence among the rural populace.

Evidence From Captured Documents

4. Other evidence of enemy concern with pacification comes from captured documents. In a recent critique of Viet Cong military, political, and economic failures by the district current affairs committee (executive body) of Phuoc Tuy Province, the Viet Cong admitted that "the pacification program of the GVN has made progress by undermining the people's confidence in the Viet Cong." Another document, from the Liberation Front (NFLSV) in one of the districts of Vinh Long Province, stated that the US and its "henchmen" are carrying out the pacification program, and organizing "census-grievance" teams--"disguised spy organizations"--and doing their best to propagandize and deceive the people.

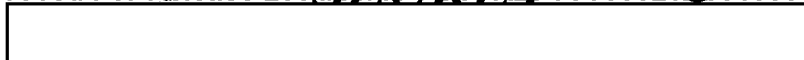
5. Enemy anxiety over the Chieu Hoi program is well known. In Vinh Binh Province, the Viet Cong municipal committee targeted to work against the provincial capital recently formed a 32-man armed propaganda platoon whose function is to counter the activities of a GVN propaganda platoon composed of defectors. The GVN Chieu Hoi platoon has reportedly conducted a number of successful small operations in Viet Cong - controlled areas.

Viet Cong Defectors (Chieu Hoi)

6. The number of defectors from the Viet Cong for the week ending 5 October rose significantly for the first time in several weeks. The corps area breakdown follows:

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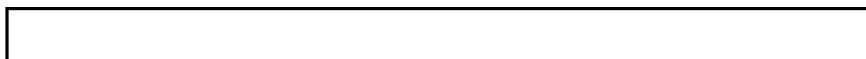
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I Corps	55
II Corps	76
III Corps	83
IV Corps	101
	—
Total	315 (181 military)

Defectors in 1966 through 5 October total 13,452.

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III. ECONOMIC SITUATION

Price movements in Saigon remained generally favorable in the week ending 3 October. With the exception of the price of rice, which continued to increase, the prices of most goods were either steady or slightly lower. Prices of imported commodities also held fairly steady. Free market gold and currency prices were virtually unchanged.

The third of a series of US-GVN economic discussions covered the port problem and 1966-67 budget estimates as well as a number of rather technical topics considered at earlier meetings. According to the US Embassy, congestion at the Saigon port remains a serious problem because of the failure of importers to remove their goods from the warehouses. Minister of Economy Thanh, however, continues to maintain that the major problem is poor port management. The US Mission has recommended that the price of rice be raised in order to increase the farmers' incentive to produce. It is estimated that roughly ten percent of total Delta rice production may be lost as a result of the Mekong floods.

Prices

1. Price movements in Saigon remained generally favorable in the week ending 3 October, with the prices of most goods either steady or slightly lower. The major exception to this pattern was the price of rice, which increased for the third consecutive week. This latest increase for all three varieties of rice reportedly stemmed from an expectation of future supply shortages as a result of the current flooding of the Mekong (see paragraph 7). Prices of pork, beef, and chicken remained at the level of the preceding week, and fish and shrimp declined. The over-all USAID retail price index moved down one percent as the food index

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declined two percent and the nonfood index rose less than one percent. Higher prices for charcoal and firewood were responsible for the slight increase in the nonfood index. (A table of weekly retail prices in Saigon is included in the Annex.)

2. The prices of most imported commodities were generally stable during the week ending 4 October. Prices of iron and steel products and chemicals, however, edged up slightly.

Currency and Gold

3. Free market gold and currency were virtually unchanged in the week ending 3 October. The prices of dollars and MPC (scrip) each moved up one piaster to 169 and 116 piasters per dollar, respectively. For the past six weeks the price of dollars has ranged between 165 and 170 piasters. Gold fell slightly for the second consecutive week; the rate on 3 October was 244 piasters per dollar, or two piasters below the rate of the previous week and two piasters above the official rate. (Graphs on monthly and weekly free market gold and currency prices are included in the Annex.)

US-GVN Economic Discussions

4. The third of a series of US-GVN economic discussions was held on 23 September under the joint chairmanship of Deputy Ambassador Porter and Acting Minister of Economy and Finance Ton.

5. Of particular interest was the report of Mr. Tinh, GVN Director General for Budget and Foreign Aid. Tinh stated that the budgetary situation for CY 1966 was reasonably good. With the exception of wage increases, obligations and expenditures for 1966 have not exceeded estimates, and receipts have been up slightly. According to Tinh, the budget deficit as of 31 August was about 8 billion piasters. The original Vietnamese budget for 1966 included a deficit of 17 billion piasters. According to the latest estimates of the US Embassy, the inflationary gap for 1966 will be about 21 billion piasters.

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6. Tinh said he could not discuss the CY 1967 budget in detail because the ministries and departments had not yet submitted their requests for funds. Nevertheless, he felt that if expenditures do not exceed 90 billion piasters and if receipts increase by 25 billion piasters, the inflationary gap will be around 30 billion piasters. Currently, the embassy foresees a gap of 10 billion piasters in 1967. Even a gap of this lower magnitude, however, will result in a price rise of at least 15 to 20 percent in 1967 according to rough calculations made by the embassy.

Impact of the Mekong flood

7. As of 4 October the four provinces most affected by flooding were Chau Doc, Kien Tuong, Kien Phong, and An Giang. It is estimated that in these four provinces about 450,000 tons of paddy rice, or roughly ten percent of total Delta rice production, may be lost. Not only will the economy suffer from this loss, but the individual farmers involved will be particularly hard hit. The only positive aspect of the flooding is the opportunity it will present--as soon as flood waters recede--to demonstrate production of selected short-season crops and to encourage diversification of crop production. With regard to livestock, it still appears that although farmers are accustomed to flood conditions at this time of year and have as usual sold off part of their livestock, the abnormally high flood level may create substantial livestock losses.

Rice Price Policy

8. The US Mission, which is preparing a comprehensive study of the rice problem, has recommended that present rice price policy be revised. Although Ambassador Lodge does not agree with the mission's views on this subject, he has transmitted its views for consideration in Washington. At the present time the price of rice is held low through government subsidy. The mission now feels that this policy of price restraint has served its purpose of ameliorating the effects of

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the rapid inflation of the past year. According to the mission, continuation of the present artificially low prices will only depress future rice production and require larger subsidies which will add substantially to the already large inflationary gap.

9. Consequently, the US Mission recommends that the price of imported rice--which governs the price of domestically produced rice--be increased to the world market price level. Although this higher price would still require some government subsidization, the amount of subsidy would be considerably lower and less inflationary than at present.

10. It is felt that higher prices will greatly increase the farmer's incentive to increase production and thereby bring a reduction in rice imports and increased income for him. Moreover, there appears to be evidence that, given a fair money income, the farmer is ready to invest in fertilizers, insecticides, and even small farm machinery, all of which would further increase output. It also is possible that the present fertilizer subsidies could be terminated. Such a positive response by farmers depends, of course, on the price increase actually reaching them. Although there are several factors--merchants' collusion, Viet Cong taxation, rising marketing costs--that could limit the additional return to the farmer, the mission feels that a considerable portion of the price increase would seep down.

11. The need for increasing rice production is obvious. Although estimates on the 1966/67 crop vary widely, in no case is production expected to exceed that of 1965/66. Given an increase in population, deliveries to Saigon at about the same level as in 1966--currently estimated at 317,000 tons or the lowest level since 1966--would be something of a success. On the basis of current production, the mission estimates that import needs for 1967 will amount to 600,000 tons, or roughly double the 1966 level, and could possibly amount to 800,000 or more tons depending on the effects of the Mekong floods and increased military action in the Delta.

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12. While it is clear that production must be increased and that higher rice prices may accomplish this goal, the increase in retail rice prices would be considerable. According to US Mission estimates, the price of rice used in the working class cost of living index would increase 59 percent above its current level if the price of imported rice were raised to the world market price level. This would result in an eight-percent increase in the cost of living index. Although the mission is aware of the dangers inherent in such an increase, it nevertheless feels that higher rice prices are necessary before the harvest of the new crop begins in December. The mission also feels that because the new price would also entail a small government subsidy, the GVN would at least be able to point out to the consumer that it is doing what it can to limit the price rise.

Port Problems

13. Congestion at the Saigon port remains a serious problem. The US Embassy reports that although the port problem is complex, it is clear that the failure of importers to remove their goods from transit warehouses is a major cause of the congestion. Transit warehouses at the port are essentially full, and the discharge of barges and ships has been slowed down because there is no other place to put the cargo. Evidently importers prefer to leave their goods in transit sheds in order to delay payment of the bank loans that they negotiated earlier when interest rates were low.

14. In spite of this situation and the fact that Deputy Ambassador Porter personally conducted Minister of Economy Thanh on a waterfront tour to demonstrate conclusively that the reluctance of importers to move their goods is a major problem, Thanh--for his own unknown reasons--continues to maintain that the major problem is poor port management and not the unwillingness of importers to move their goods. As a result, the GVN largely continues to ignore US pleas to enforce higher

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warehouse charges on importers and to auction or confiscate the goods that are left too long in the warehouses. The embassy feels that if US financing of imports and US efforts to expand the port are not to be wasted, either the GVN will have to make the importers accept delivery of their goods, or the US itself will have to move the goods out of the port or attempt to get the Vietnamese Army to move and perhaps auction the goods.

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TABLE

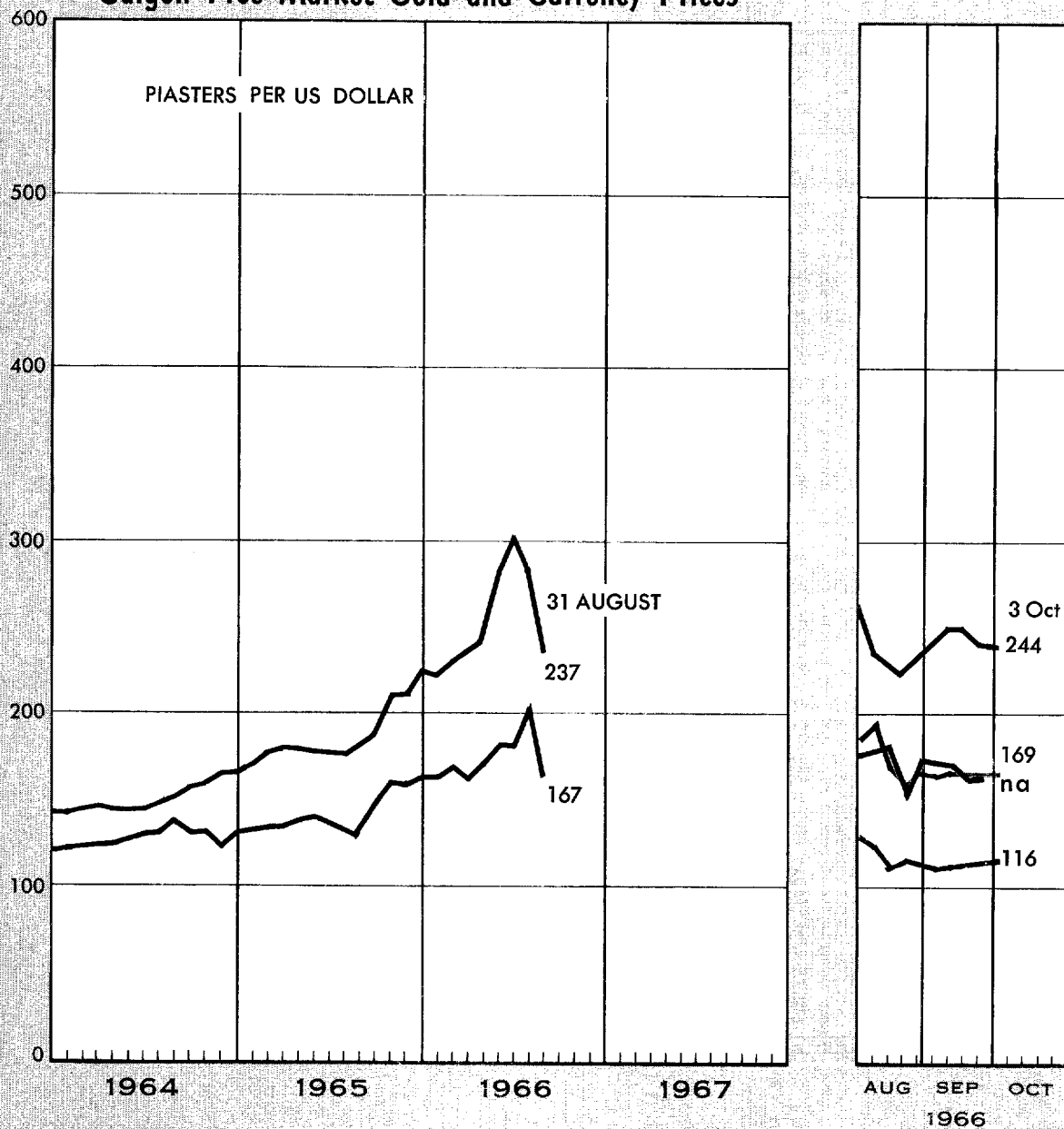
Weekly Retail Prices in Saigon a/

(In Piasters)

	3 Jan 1966	12 Sep 1966	19 Sep 1966	26 Sep 1966	3 Oct 1966
Index for All Items <u>b/</u>	<u>160</u>	<u>249</u>	<u>219</u>	<u>212</u>	<u>209</u> <u>c/</u>
Index for Food Items <u>b/</u>	<u>169</u>	<u>264</u>	<u>227</u>	<u>219</u> <u>c/</u>	<u>214</u> <u>c/</u>
Of Which:					
Rice-Soc Nau (100 kg)	800	1,300	1,320	1,370	1,400
Pork Bellies (1 kg)	70	180	100	85	85
Fish-Ca Tre (1 kg)	110	220	180	170	160
Nuoc Mam (jar)	50	85	85	85	85
Index for Nonfood Items <u>b/</u>	<u>124</u>	<u>198</u>	<u>192</u>	<u>190</u> <u>c/</u>	<u>191</u> <u>c/</u>
Of Which:					
Charcoal (60 kg)	440	660	600	590	600
Cigarettes (pack)	10	14	14	14	14
White Calico (meter)	27	34	33	32	32
Laundry Soap (1 kg)	30	40	40	40	40

a/ Data are from USAID sources.b/ For all indexes, 1 January 1965 = 100.c/ Preliminary.~~SECRET~~

Saigon Free Market Gold and Currency Prices



- GOLD Basis: gold leaf worth \$35 per troy ounce
- US \$10 GREEN
- PIASTER-US DOLLAR CROSS RATE In Hong Kong; calculated by reference to the exchange rates to the Hong Kong dollar
- US \$10 MPC Military Payment Certificates (scrip)

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